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AIRPORT COMMISSION:

Concession Review of
Fung Lum Restaurant Group

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FINANCIAL AUDITS



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FINANCIAL AUDITS



January 17, 2007



CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

January 17, 2007

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128-8097

President and Members:

The Office of the Controller presents its report concerning the review of Fung Lum Restaurant Group (Fung Lum). Fung Lum has two ten-year leases, expiring in 2010 and 2015, with the Airport Commission of the City and County of San Francisco. Under the terms of its two leases, Fung Lum operates three restaurants at the San Francisco International Airport.

Reporting Period: July 1, 2003, through June 30, 2006

Fees Paid: \$553,094

Results:

Fung Lum correctly reported, in all material respects, gross revenues of \$7,585,304 and correctly paid its rent.

Respectfully submitted,

Noriaki Hirasuna
Director of Financial Audits

FINANCIAL AUDITS

INTRODUCTION

BACKGROUND

Fung Lum Restaurant Group¹ (Fung Lum) operates three restaurants under two separate leases with the Airport Commission (Commission) of the City and County of San Francisco at the San Francisco International Airport (SFO). Under a ten-year lease, which commenced on November 5, 2004, Fung Lum operates two Fung Lum Express restaurants at the domestic terminal of SFO. Under a nine year and 11 months lease, which commenced on May 8, 2000, Fung Lum operates another restaurant at the international terminal of SFO.

For the review period, the leases required Fung Lum to pay the Airport Department (Airport) the greater of a minimum annual guarantee or a tiered percentage rent of six to ten percent of its respective gross revenues per lease year.

SCOPE AND METHODOLOGY

The purpose of this review was to determine whether Fung Lum complied with the reporting and payment provisions of its leases with the Commission. Our review covered the period from July 1, 2003, through June 30, 2006.

To conduct the review, we examined the applicable terms of the leases and the adequacy of Fung Lum's procedures for collecting, recording, summarizing, and reporting its gross revenues to the Airport. To determine whether Fung Lum accurately reported its gross revenues to the Airport, we compared its reported gross revenues to those recorded in its internal monthly summary records for all months of the review period. We tested, on a sample basis, Fung Lum's monthly sales records, daily sales reports, cash register tapes, and bank deposit records. We also determined whether Fung Lum had any outstanding payments due to the Airport for the review period.

¹ Fung Lum Restaurant Group is not a legal entity, but the name is used only for report purposes.

RESULTS

FUNG LUM CORRECTLY REPORTED ITS REVENUES AND CORRECTLY PAID ITS RENT

Fung Lum Restaurant Group, in all material respects, correctly reported gross revenues and correctly paid its rent for the three restaurants it operates at SFO. The table below shows the gross revenues reported and rent paid to the Airport for the periods we reviewed.

TABLE

Gross Revenues Reported and Rent Paid

	Gross Revenues Reported	Rent Paid
Domestic Terminal Restaurants		
June 2005	\$ 169,041	\$ 9,884
July 1, 2005, through June 31, 2006	<u>2,876,838</u>	<u>241,996</u>
Subtotal	\$3,045,879	\$251,880
International Terminal Restaurant		
July 1, 2003, through June 30, 2004	\$1,553,153	\$100,627
July 1, 2004, through June 30, 2005	1,599,999	108,636
July 1, 2005, through June 30, 2006	<u>1,386,273</u>	<u>91,951</u>
Subtotal	\$4,539,425	\$301,214
Total	\$7,585,304	\$553,094

We conducted this review in accordance with generally accepted government auditing standards. We limited our procedures to those area specified in the scope and methodology section of this report.

Staff: Kevin Baloca, Audit Manager
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cc: Mayor
Board of Supervisors
Civil Grand Jury
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